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# Analysis of critical factors affecting enterprise development in Kenya: a case of 2017 top 100 mid-sized companies in Kenya

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# ANALYSIS OF CRITICAL FACTORS AFFECTING ENTERPRISE DEVELOPMENT IN KENYA: A CASE OF 2017 TOP 100 MID-SIZED COMPANIES IN KENYA

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## DECLARATION

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other University. To the best of my knowledge and belief, the thesis contains no material previously published or written by another person except where due reference is made in the thesis itself.



Signed…… Date…….

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**Approval**

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## ABSTRACT

Enterprise development is one of the most important ingredients of economic growth. In particular, SMEs contribute 45% to the GDP in Kenya. Despite the economic contributions of enterprises among the SMEs in Kenya, little information is available on the impact of some of the critical factors affecting enterprise development in Kenya. This study sought to determine the effect of the critical factors on enterprise development based on SMEs in the country. To do this, primary data was collected using structured questionnaires from the 2017 Top 100 mid-sized companies in Kenya listed by KPMG. Both descriptive and inferential statistics was used to analyze the data. The results of the study show that infrastructure, access to affordable capital and credit, fiscal policy alignment, interest rates, balance of payments, government debt, workforce development and export trade had a significant impact on enterprise development. The findings also outlined that there were strong correlations amongst the factors under study and a change in any one factor would lead to a snowballing effect resulting in a significant impact on enterprise development. Customizing policies with a strategic focus on some of the key factors identified in the study will significantly impact enterprise development. The study will also guide policy makers to understand implications on SMEs before making policy related decisions

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## ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| **SME** | Small and Medium Enterprises |
| **ANOVA** | Analysis of Variance |
| **FDI** | Foreign Direct Investment |
| **G.o.K** | Government of Kenya |
| **GDP** | Gross Domestic Product |
| **ILO** | International Labour Organization |
| **I-Tax** | Integrated Tax Management System |
| **KNBS** | Kenya National Bureau of Statistics |
| **MITI** | Malaysia International Trade and Industry |
| **MVA** | Manufacturing Value Added |
| **NIEs** | Newly Industrialized Economies |
| **OECD** | Organization for Economic Cooperation and development |
| **SPSS** | Statistical Package for Social Sciences |
| **UN** | United Nations |
| **UNIDO** | United Nations Industrial Development Organization |
| **US** | United States |
| **4K MSE** | KIRDI, KEBS, KIPI and KNFJKA for Medium small and micro enterprises |

# CHAPTER ONE

## INTRODUCTION

### 1.1 Introduction

This chapter exhibits a brief summary on enterprise development, highlights the economic growth in Kenya and gives an overview of SMEs in Kenya. It also outlines the statement of the problem, research objectives, the breadth of the study, and its significance.

### 1.2 Background of the Study

Enterprise development is viewed as the motor of financial development and a main thrust of monetary rebuilding and improvement of a nation's economy (Farayibi, 2015).

Enterprise development has had a significant impact on economic growth in East Asian countries. Some of the countries that have experienced a notable positive impact on the economy due to enterprise development are Malaysia, China, Taiwan, Indonesia and Korea. A focus on enterprise development has played an important role towards inclusive growth in these countries. Many of these countries have managed to attain inclusive growth while inequality has persisted in others (Matleena, 2014). Enterprise development has been a key ingredient for economic growth and inclusive growth in these nations. According to Athukorala (2014), enterprise development is fundamental for continuity in growth and development of any country. Even though a great focus has been put into industrialization process, Kenya is still classified as an industrially underdeveloped country (Kenya national industrialization policy framework 2014). Economic plans and investment policies have been revisited, reworked on and severally overhauled. Numerous industrial development policies and economic plans have established the

importance of enterprise development in the economy yet its contribution to economic growth is minimal.

In Kenya, there are approximately 1.6 million registered SMEs composing 96 per cent of all business enterprises in the country. The contribution of the SMEs to the GDP is over 45% and in addition to that contributing to 80% of the jobs (CNBC Africa, 2015). This shows that enterprise development and industrialization could spur further economic growth through continuous investments and enhanced budgetary allocations.

### 1.2.1 Enterprise Development

Enterprise development is process of investing critical resources such as time, required finance and other assets towards assisting people establish, expand or improve businesses. The main aim of enterprise development is to encourage establishment and running of sustainable businesses in an economy which further lead to increased employment levels and thus economic growth. Jhingan and Abbott (2013) attest that exceptional administration, good legal framework, availability and accessibility of natural resources, affordable skilled labour and innovation are key ingredients invigorating enterprise development. Enterprise development in Kenya shall promote new start-ups and also encourage further growth of existing businesses which will provide opportunities for those entering the job market. It also ensures sustainability of these opportunities. Ismael (2013) argues that the key role of enterprise development programmes should be to facilitate transfer of skills and wealth. This forms a pathway to sustainable growth. Enterprise development initiatives need to be strategic and well assessed based on the local environment and the vision.

It is noticed that nations that have remodeled from essential farming-based economies to industrial and service-based ones have had the capacity to accomplish progressively feasible income for development. Several nations have witnessed economic transformation due to a significant contribution from manufacturing and enterprise development (Lall, 2016).

Significant economic growth levels have been experienced in several nations particularly those in Asia, Latin America and Eastern Europe resulting from increased manufacturing exports. These nations changed from 'less economically developed countries' to rising economies. Enterprise development should remain a key focus are for the nation, and that local entrepreneurs should be supported by larger companies with opportunities to grow.

### 1.2.2 Relationship between Enterprise Development and Inclusive Growth

According to a report by OECD (2014), inclusive growth is defined as a general increase in monetary incomes along with an improvement in non-monetary dimensions of different social groups in the nation. Non-monetary dimensions include a general increase in job opportunities, job satisfaction, accessible health services and accessibility to education. In a study by Farayibi (2015) enterprise development assists in poverty reduction and in attaining inclusive growth in an economy in the long term. In another study by Bolaky (2014), a positive interrelationship was noted between enterprise development and inclusive growth for developing countries.

The Kenyan economy has always been revolving around agriculture although that is expected to change with the recent government heavy investment in infrastructure. Kenya's economic performance is projected to better from 5.6% in 2015 to 5.9% in 2016

as stated in a World Bank Group (WBG) economic forecast Kenyan case (World Bank, 2016). The projection suggests that the growth is likely to hit 6% in 2017 although many factors are expected to work for or against the projection depending on the country's stability level. According to report by World Bank (2016), Kenya has witnessed reasonably good growth period with increasingly more job opportunities than before, mostly in the informal sector of the economy, and inequality has continued to reduce among different social groups in the country. The report further states that to maintain job creation in the country, it is crucial to lower the cost of doing business which is an important factor for a stable private sector and this in the long run is likely to positively impact the Kenyan economy and promote inclusive growth.

### 1.2.3 Small and Medium Enterprises (SMEs)

The definition of SMEs differs from country to country. Some use the number of employees as a measure while others use annual sales turnover and/or the value of the assets owned by the organization. The number of employees is mostly used to define SMEs. The upper limit set by transition and developing countries in terms of the number of employees is approximately 200-250. European Union and many Organization for Economic Co-operation and Development (OECD) also use the same upper limits. Some exceptions are Japan (300 employees) and the USA (500 employees) (OECD, 2004). Several countries also define the lower end of the SME with less than 10 employees. These are a mixture of the self-employed and “micro” enterprises.

Small and Medium-Scale Enterprises (SMEs) are extremely important in any economy and their role in the economy cannot be undervalued. Most developing nations are shifting their focus to SMEs and giving them increasing policy attention partly due to

discouraging outcomes of development strategies focusing on large industries which demand a lot of capital and are import dependent (Taiwo, Ayodeji & Yusuf, 2016).

There are many positive impacts of SMEs such as increased and efficient use of local raw materials, employment creation, stimulation of rural development, promoting entrepreneurs, usage of local savings, interdependence of larger industries and SMEs, facilitating an economic balance through even spread of investments, promoting self-employment and encouraging further education and training (Smeaton, Hudson & Deraniyagala, 2015). Most of the developing countries count on the energy, originality, creativity and the risk-taking ability of SMEs to provoke and preserve economic growth. To sum up, SMEs play a crucial role in economic development and growth (Taiwo et al., 2015).

SMEs have been selected for this study given that they are a key focus on the fiscal policy of the Government of Kenya. They create the most employment opportunities for Kenyans and have a significant contribution to the GDP. As reported by Ministry of Industrialization and Enterprises Development (formerly Ministry of Trade), in Kenya, there are approximately 1.6 million registered SMEs. According to the records of Kenya Revenue Authority (KRA), only 1,500 of them are recognized medium taxpayers out of the 1.6 million registered SMEs. The contribution of the SMEs to the GDP is over 45% and in addition to that contributing to 80% of the jobs (CNBC Africa, 2015).

Generally, SMEs act on the available gaps (prospects) and resources in the market to generate profits and in the process make the economy more productive by increasing the number of economic activities. This also creates employment opportunities and promote

inclusive growth (Ogbo &Agu, 2012; Omar, Arokiasamy & Ismail, 2009). SMEs are a key foundation to facilitate self-sustaining enterprise development.

## 1.3 Statement of the Problem

Many countries have realized the importance of SMEs in their economies. According to a report by Ministry of Industrialization and Enterprise Development, (2010), the main solution to achieve reduced poverty levels, lower unemployment rates and increase the foreign exchange earnings is to focus on enterprise development.

Several studies on enterprise development and growth of SMES in Kenya have been presented in various literatures. Most studies focus only in certain small counties. This makes it hard to take a broad view of the findings. None of the above-mentioned studies address the critical factors affecting enterprise development in Kenya. This presents a clear gap in the findings considering that many enterprises fail to expand beyond the micro-enterprise scale. Ahmad (2017) led a similar study on the effects of enterprise development on economic growth in Kenya. However, the study did not take into consideration the effect of Government capital investments and productivity on enterprise development in Kenya. Largely, studies in Kenya have mostly fixated on economic growth and large firms neglecting SMEs (Wambua, 2014). This indicates a gap in a study focusing on effects of enterprise development on economic growth in Kenya (Buigut, 2015; & Kipkorir, 2014). It is against this foundation that this examination seeks to find out the effects of different factors on enterprise development in Kenya. The study focuses on 2017 top 100 mid-sized companies in Kenya.

## 1.4 Research objectives

### 1.4.1 Main Objective.

The main objective of the study is to analyze the critical factors affecting enterprise development in Kenya: a case of 2017 top 100 mid-sized companies in Kenya.

### 1.4.2 Specific objectives

i. Effect of Government capital investments on enterprise development.
ii. Effect of increased productivity on enterprise development.
iii. The influence of Increased Tax Payment on enterprise development.
iv. Effect of Macroeconomic factors & Business Environment on enterprise development

## 1.5 Research questions

i. What is the effect of Government capital investments on enterprise development?
ii. What are the effects of increased productivity on enterprise development?
iii. How do increased tax payments (tax revenues) affect enterprise development?
iv. How do macroeconomic factors and business environment affect enterprise development?

## 1.6 Scope of the Study

This investigation concentrates on the effect of enterprise development on economic growth in Kenya with point of view of 2017 top 100 mid-sized companies in Kenya. The key factors to be focused on in the investigation are: Government capital investments and their effect on enterprise development in Kenya, Increased Productivity and its effect on enterprise development, influence of increased tax payment (tax revenue) on enterprise

development and lastly the Macroeconomic factors & Business environment and its effect on enterprise development. SMEs will form the sample size of this study. This population is of importance because they have good knowledge of information applicable to the research objectives. The study targets the SMEs in Nairobi County.

## 1.7 Significance of the Study

**Small and Medium scale Entrepreneurs**

This investigation gives a direction in helping small scale entrepreneurs in establishing whether enterprise development has in any way addressed the problem of unemployment and whether it has any significance on advancement of SMEs.

**Policy makers**: The outcomes of this investigation will guide policy makers in determining the extent to which the critical factors affect enterprise development in Kenya. It will also assist the government to localize policies based on the key factors that affect enterprise development in Kenya.

**Academicians**: The investigation is of benefit to the academia in that it forms a foundation on which others can advance their studies, critique and make references.

# CHAPTER 2: LITERATURE REVIEW

## 2.1 Introduction

This part exhibits both theoretical and empirical literature review which covers critique of the existing literature and research gaps are presented. The chapter also presents the conceptual framework.

## 2.2 Theoretical framework

This section discusses two key theories which are: Endogenous Growth Model and Neoclassical Growth Theory. The theories are deliberated in line with the specific objectives of the study showing how they relate to the current topic.

### 2.2.1 Endogenous Growth Model

The endogenous growth theory is an economic concept which explains that internal processes within the system directly affect the economic growth of a nation. Precisely, the concept notes that improvement of a country's human capital will promote development of new forms of technology which reduce the overall cost of production due to higher levels of efficiency. This will lead to economic growth (Rossi, 2011; Barro, 1990). On the contrary, neoclassical economists argue that the main ingredients of economic growth are technological development along with other external factors. However, proponents of endogenous growth theory argue that considering the economies and efficiencies in today's developed nations to their economies during the pre-industrialized eras are an indication that economic growth was created and maintained from internal processes within the nation and not through trade.

This model explains that it is fundamental to understand that the source of economic growth are the economic forces underlying the technological progress (Rossi, 2011). The proponents of the model are of the view that the backbone of any meaningful economic growth is advancement in technology or technological progress. Technological improvements are automatic and un-modeled (exogenous) (Rossi, 2011; Jones & Manuelli, 1990). The view contrasts that of the Solow model stating that the rate of technological growth depends on capital growth rate and technology influences capital thus economic growth is an endogenous process (Rossi, 2011).

The theoretical framework applied in this investigation is built on the aggregate production function based on endogenous growth model developed by Jones and Manuelli (1990). This model avoids diminishing returns to capital and is presented as:

$$y = f(k, l)$$, where

Y= is per capital output, k= is capital industrial output ratio; and $l$ is labour industrial output ratio.

The production function possesses a constant average and marginal product of capital and it does not show convergence property (Barro and Sala-i-Martin, 2004). Economic growth or Industrial growth can be defined in two distinct ways. It can be defined in terms of a change in the nation's produce in terms of quantity and employment rates (Clunies- Ross et al., 2010). It can also be conceived in form of income levels reaching a certain stipulated minimum. Countries can therefore be classified into low income, middle income or high-income countries. In a study of type, it is ideal to use the first definition above.

A simple endogenous growth model was suggested by Barro (1990). The model outlined the function of the government and how this affects the overall economic growth. In this

model, government expenditure financed from income taxes complement private investments. The government investments are utilized towards building infrastructure, schools and sanitation. The government investments elevate the yield of private investments and thus higher taxes will be linked with an increase or a decrease on economic growth (Rossi, 2011). This is true for investments in industrialization and enterprise development funded through income taxes and foreign direct investments. It is expected that as more and more investments are channeled towards industrialization in terms of skills development, infrastructure development, loans etc. it will lead to increased production or output which thus realizing economic growth.

### 2.2.2 Neoclassical Growth Theory

Neoclassical growth theory is an economic model that describes how a suitable combination of three main forces, namely: labour, capital and technology will contribute towards achieving a stable economic growth. An equilibrium can be achieved by changing the amount of labour and capital in the production function. Technological advancement plays an important role and has a significant impact on an economy. The theory argues that economic growth is not feasible without technological advancement. Neoclassical theory promotes the idea that temporary equilibrium and growth can be achieved with a correct mix of the three factors. The theory also states that unlike in temporary equilibrium, long term equilibrium is achieved without any intervention in any of the three driving forces required for the short-term growth.

In any economy, to realize economic growth, how the accumulated capital is being utilized is of utmost importance. The neoclassical growth theory is based on the understanding that accumulated capital is important for economic growth. The theory also realizes that the

relationship between capital and labour governs the output from the economy. Lastly, technology is thought to supplement labour productivity to increase the output capabilities of labour.

Karl Marx (1875) Classical theory was a forerunner of the neo-classical theory. The classical theory of public debt argued that the state functions in any economy should be kept at a bare minimum. According to the theory, there existed 100 per cent employment in an economy with perfect competition. There was a perfect mobility for production in the market. Government intervention was believed to be unnecessary during the smooth running of the economy. The theory stated that if any instability was experience in the system, it would automatically be brought back to equilibrium without any intervention.

The economist further argued that because government intervention is at minimum with very limited functions, large public expenditures were unnecessary and hence public revenues required are also minimal. It was therefore not necessary for governments to raise funds in form of public debt. Government expenditure was wasteful and public debt would impose needless burden on the community, (Smith 1776).

Just like the classical theory, government expenditure was minimal during that era as compared to today, when government expenditures have increased and require to be financed in order to provide social goods to its citizens. Today, we cannot hold that government expenditure is wasteful and unproductive.

## 2.3 Empirical review

### 2.3.1 Government Capital Investments and Enterprise Development

Fuller (2014) conducted a random sampling on 100 SMEs in South Africa and the output of the study showed that in order to foster economic growth, employment creation and poverty reduction, large investments were made by the South African government towards Enterprise development. Further, the findings revealed that the government focused on SMEs to create employment opportunities.

In a cross-sectional study conducted by Babbie (2014) in Tanzania, it was seen that due to inadequate support provided by the government, 60% of new start-ups close within the first year of establishment. According to the study, although Tanzanian Department of Trade and Industry took initiatives to offer incentives and assistance to the SMEs, it was not enough.

Recent study conducted by Tian (2016) found that in the world's leading economies, the Small and Medium Enterprises sectors were actively supported by their national governments. The support came in many forms but the most commonly used method was in form of adoption of tax-related policies in which special consideration were made for the new start-ups.

Hussey and Eagan (2015) did a census on SMEs based in Addis Ababa, Ethiopia and the results showed that the SMEs who succeed in protecting the environment were given tax breaks because it was considered as a contribution to the principles that were important to the country. In a study by Khade (2013), it was revealed that numerous resources are used by SMEs towards innovation and research and development. Governments usually availed

significant funding to the SMEs to encourage promotion of science and technology in the economy. The drive of availing such funding was fueled by the ambition to use the SMEs as the innovators and early adopters of technological progression in the country. Some of the examples of such countries are China, South Korea, Singapore and Japan.

Oakland (2014) observed that enterprise development is viewed as a foundation for defining a country's economic efficiency in the modern world. According to Oakland, enterprise development is known to be the economic stimulant for most countries in the twentieth century and this fact cannot be challenged. A study conducted by Mucheru (2015) in Kenya show that enterprise development has been much emphasized in Kenya as in many other countries as a basic means of overcoming economic backwardness.

In a study by Mullins (2014) about SME growth in sub Saharan Africa, the findings showed that over the past 35 years the focus of most governments has shifted to SMEs as it is a potential solution to the declining economic performance and increasing unemployment rates. It was also seen that elevated levels of enterprise development and rapid positive economic performance in developing countries was achieved through several government policies focused at supporting both individuals and the public/government to establish industries. However, a cross sectional study conducted by Obioma (2014) in Kenya revealed that the greatest obstacle to rapid enterprise development has been identified to be inadequate finance, lack of commitment to policy framework by successive governments, corruption among others

A study by Shafaeddin (2014) analyzed countries that agreed to take up the challenge of economic advancement in the early 1980s. The key aim was to increase exports and

broaden the scope of the manufacturing sector. The analysis showed that sustained enterprise development was a significant contributor to economic growth and increased employment rates. Further findings show that one third of the global manufactured exports came from emerging markets while the developed nations accounted for two thirds of the exports. It was seen that the contribution from emerging markets was growing steadily (Teitel, 2015).

A recent study conducted by Isaksson (2015) found that the manufacturing value add (MVA) per capita in East and South East Asia have increased more than twofold. It was also noted that the MVA per capita of East and South East Asia had much exceeded that of the Latin America after exclusion of the contribution of China. According to the study, sub-Saharan Africa have experienced a notable decrease in the MVA per capita while South Asia experienced a remarkable increase in MVA per Capita.

A 2014 report by the United Nations showed that international trade (sum of exports and imports) realized a spike from about 35% of global GDP in the year 1974 to 50% in the year 2002. Due to the assimilation of the world economies as a result of increasing trade, investment and technological progression continue unevenly across the world. The report additionally stated that East Asia had experienced a four-fold increase which is more than that in high income OECD nations, Middle East and Sub-Saharan Africa. The report also stated that production is becoming a more common activity geographically and more assimilated due to the wide spread production chains. A spike in the foreign direct investments in developing nations have also had a positive impact on trade.

Munene (2013) observed that SMEs being crucial to the Vision 2030 Kenyan dream, the Kenyan government is spearheading the alignment of the policies guiding the SME sector.

Munene argued that SMEs are vital in any economy because they play an important role of ensuring equality in terms of wealth distribution thus assisting towards inclusive growth and meeting the needs of the rural and disadvantaged areas. The government of Kenya guided by Sessional Paper No 2 of 2005 launched the 4k MSE 2030 initiative under the first five years 2007 to 2012 of Vision 2030. The initiative is tasked with ensuring that the quality and uniformity of produce from the SMEs in Kenya meet both the local and international standards. Quality and uniformity will facilitate collaboration among different sectors in the country (Vision 2030). The key expected outcomes from the initiative are to: Improve on the Local Products; develop competence to manufacture the improved products; increase focus on innovation and technology transfer; inculcate a culture of quality and uniformity. According to Kenya National Chamber of Commerce report of the year 2015, the initiative has recorded encouraging results since it was set up. It has managed to train over 1,000 SMEs on mass production of quality products while diversifying on their portfolios.

According to a report by Cytonn (2016), the Kenyan government has in its plan to develop five industrial parks for SMEs along the Export Processing Zone (EPZ) and for which Kes 1Billion has been set aside. The industrial parks are expected to generate approximately 10 million job opportunities once fully set up. EPZ is a region that has more liberal laws than the typical laws governing investment and trade, the purpose of which is to mostly attract foreign investors (Reschke, 2014). The report also states that the EPZ include an array of designated free trade zones, industrial estates, free ports and enterprise zones.

According to Brown (2014), for enterprise development process to succeed, the government plays a vital role in the economy. Petty (2014) conducted a study in Malaysia which showed that the government spearheaded the enterprise development process and made large capital investments towards development of infrastructure which would be required to support the enterprises. Key attention was given to building roads and railways to ensure ease of accessibility. They also invested largely on airports and ports. Significant investments were also made on ICT infrastructure to support the entire operation. Development of the labor force was key to support the entire system, and this was supported by the government. The study confirmed that Malaysia remains a key focus for many foreign direct investments.

### 2.3.2 Productivity and Enterprise Development

SMEs are known to easily adapt to trends in technology to improve the quality of finished goods and keenly focus on efficiency. In the process of doing so, they strengthen productivity. Successful SMEs have a significant positive effect on job creation and engage in innovative activities to increase productivity and competitiveness (Ramezzana, 2013). According to Sink (2014), innovation at different levels is possible for SMEs as they scale up. Pegella (2014) posits that SMEs spearhead productivity and their innovative abilities enable them to venture into completely new industries. Yang (2013) contends that SMEs contribute largely to inclusive growth as they can serve in places, populations and markets that are limited in scale for larger businesses. Fostering innovation in SMEs can improve overall productivity and reduce unemployment.

SMEs can venture into opportunities, commercial or technical, which have been ignored by bigger companies. This will also enable commercialization of ideas developed by

research organizations (Baumol, 2014). In the IT sector, SMEs are a crucial origin of radical and disruptive innovations even though they experience high competitive pressures from larger firms (Osoro, 2013).

Generally, SMEs play a key role in forming a pathway for dissemination and adaptation of innovative ideas in different contexts. According to Pozzolo (2014), SMEs are known to create employment over wide geographical areas employing a wide range of labour force including workers with no prior experience and making provisions for training them. Due to this reason, SMEs are central to promoting inclusive growth in an economy.

A favourable business atmosphere with streamlined government policies for SMEs are important to incentivize risk-taking by entrepreneurs. This gives entrepreneurs an opportunity for to experience the potential in business (Nucci, 2013). Although a lot of efforts have been put into reforming policies to suit SMEs, the stringent regulations, out raging compliance costs and unproductive insolvency laws are key hindrances to entrepreneurial activity (Russek, 2013).

According to a study by Eifert (2014), investment rates of large organizations in under developed countries increased by approximately 0.6per cent points a year after an initiative of 'Doing Business' regulatory reforms was taken up. An economic growth of approximately 0.4per cent points was noted at the end of the year. It was noted that there was a likelihood of an association between growth and an increase in demand of the investment goods. This is because characteristically an interval of at least a year is expected for productivity gains accompanying increased investments are noted.

Warr (2016) observed in his study on agriculture in Thailand and Indonesia that over a period of 4years (2010-2013) an increase in productivity in the agricultural sector was responsible for 5% growth in the GDP Thailand and 3.5% growth in Indonesia. This was after the introduction of irrigation in the sector. Further, it was noted that the increase in productivity in the sector discharged excess resources which were then put into use in other sectors. The allotment of the excess resources in other sectors contributed to an additional 16% growth in GDP in Thailand and 24% growth in GDP in Indonesia. (Mougoue, 2014).

A global review by ILO (2013) identified that economic growth is significantly affected by upsurges in labour productivity within sectors in the economy. Specifically, a growth in enterprises plays a key role for overall economic growth. As documented in the OECD productivity-inclusiveness nexus, SMEs are vital in improving productivity levels, creating jobs and equal distribution of gains obtained from increased globalization and innovation (OECD, 2016). Also, SMEs can assist nations in readjusting to significant changes in the global environment and in the process taking up new opportunities and contributing towards mitigation of risks. A large majority of representatives in the Organization for Economic Co-operation and Development (OECD) are SMEs. SMEs also create approximately 70% of jobs and generate 50-60% value add. Mbiti (2013) observed that SMEs contribute to over 33% of the GDP in developing nations.

### 2.3.3 Tax Revenue and Enterprise Development

According to Battese (2014), taxes have distortionary effects and thus it is of utmost importance to set the right mix. The effects of tax revenue collection vary between sectors. All taxes have a disincentive effect because they reduce the profits of enterprises. However, taxes that lower the investment towards human capital or innovation affect the

economy negatively (Kaguri, 2014). In the short run, consumption taxes may negatively impact employees due to demotivation and may also discourage job creation, however, in the long run they appear to have a minor effect on the determinants of economic growth which are investment, education or technological progression (Bassanini, Scarpetta and Hemmings, 2014). Taxes have a significant impact on the growth of SMEs (Emanuele, 2013). According to Mwatu (2014), SMEs play a critical role in pushing the socio-economic development agenda of the nation particularly in low income earning nations like Kenya. For this reason, customizing the tax-system match the SME growth needs will form a central agenda for policy makers. In a study conducted by Atawodi (2013) to explore insights of managers on the effectiveness of tax system in encouraging SME growth in Kenya, the outcomes highlight that taxation policy affects the cost of doing business directly.

Endogenous growth models clearly outline the distinction between distortionary taxes which have a direct effect on investment decisions and taxes that have minimal impact on investment which are known as non-distortionary taxes. While government expenditure affects the economic growth negatively, certain expenditures benefit enterprise development (Hamilton, 2014). Certain government expenditures are necessary for any economy such as the legal system and security (Barrios and Schaechter, 2015). Beyond the spending for basic needs, outflows towards capital investments, human capital development, research and development, technological progression may positively affect the economic growth of the country (Kale, 2013).

A study by Reed and Rogers (2014) on the effects tax reduction in New Jersey over a period of 10years (2004-2013) provided important insights. It was noted that a 30 percent reduction in personal income taxes substantially increased employment rates at county level in New Jersey. This, however, was also the case in counties of other states which did not implement tax cuts. Ljungqvist and Smolyansky (2014) carryout a similar study but this time looking at counties across state lines and the effects of changes in statutory state tax rates over the period 1970 to 2010. They noted that an upward trend in the statutory state tax rates led to a reduction in employment rates and salaries. However, any reduction in the statutory state tax rates did not increase employment rates and salaries.

Tomljanovich (2004) finds that an increase in tax rates usually have a damaging impact on the economic growth rates and permanently decreases the size of the economy in the short-term. In the long term however growth rates are not affected. However, Ojede and Yamarik (2012) find differing outcomes from their study on overall tax burdens. They noted no change in the short-term economic growth however they do affect the economic growth rates in the long-term. They also noted that when tax burdens are broken down into smaller components, sales and property taxes have a harmful effect on the growth while corporate and income taxes do not.

### 2.3.4 Macroeconomic factors and Enterprise development

According to Jones (2014), a significant level of support is required from the government for SMEs to develop a sustainable business. Implementation of SME friendly policies and work programs can be a good start. In this context, Ogote (2016) proposes that for sustainability, the government should increase its focus towards encouraging not only quantity but also quality of entrepreneurs.

Caprio and Summers (2013) established that one of the key macro-economic variables that affect SMEs is inflation. This is because inflation puts an upward pressure on interest rates thus directly affecting the cost of borrowing. Inflation is quantitative measure of percentage change in prices of a basket of goods in an economy over a given period of time. Basky and Delong (2015) state that long-term inflation occurs when the rate of increase of money supply in an economy outweighs the rate of increase of outputs (goods and services) in the same economy. When there exists more money in the economy than required to cater for the usual increase in output, consumers acquire more goods and services than what the production capacities allow with the existing resources. This puts upward pressure on the prices (Homa, 2013).

Haslag and Koo (2013), and Boyd and Levine (2014) studied the effects of inflation on financial development using data from 2007 to early 2017. They reported that financial development is affected negatively with moderate levels of inflation. This implies that enterprise development will be affected negatively during periods of moderate inflation. Similarly, Bittencourt (2014) performed a study to understand the impact of inflation on financial development in Brazil over a period of 5 years (2005-2010) and reported that inflation lowered the financial development in Brazil at the time.

Forbes (2013) reported that there is no direct relationship between debt level of firms and the output of an organization. It was also noted that large organizations had poor performance compared to smaller firms, but the findings cannot be generalized across all organizations as variances may be noted. The study also indicated that there is no steady relationship between the profitability of an organization and currency depreciations.

In a study by Sambo (2015), accessibility of credit and enterprise development were seen to be moderately positively correlated. The study agrees with another investigation by Mwangi and Shem (2012) who reported that accessibility of credit was a major barrier for development and growth of SMEs.

### 2.3.5 Impact of Enterprise Development in a Country

A study done by Hyland and Boer (2015) to determine the effects of enterprise development on the economic growth in Japan found that majority of the great organizations have originated as SMEs and evolved over time. The study also suggested that both existing and potential SMEs in present times must be cultivated to safeguard their growth because they will transform to be the large organizations in the near future. The study also mentions that SMEs are commonly seen to be the seedbed that create many investments (in terms of volumes) but small investments (in terms of amounts) in the economy which otherwise would not have been observed.

As stated by Aryeetey and Ahene (2014) in their study, emerging nations such as Kenya should provide the appropriate environment required for further growth of SMEs to become self-sustainable. This also makes the sector more attractive and thus encourages new entrants to take risks. Ahene (2014) suggests that provided the government plays an active role in reinstating and reinforcing elements that positively affect enterprise development and focusing on resolving problems that threaten the survival of the small enterprises, SMEs shall surpass the expectations off them towards economic transformation.

In a study by Smatrakalev (2015), enterprise development is perceived as the key driver of devolution, economic restructuring and inclusive growth. The study also defined

entrepreneurship as the process of creating outputs from overlooked opportunities and in the process realizing profits. According to Farayibi (2015), small enterprises are known to carry burden of risks related to economic development because they take up new ideas and put aside capital with an expectation of immediate and long-term returns.

In a study conducted by Ogbo and Agu, (2017), descriptive statistics was used to analyse the contribution of SMEs to the economic development in Nigeria. It was noted that SMEs play a key role in industrialization and growth of the economy and this will apply to most of the nations around the world. The study also indicated that the performance of the SMEs was below the expected levels due to a mix of several problems some of which were cultural, political and policy related.

Obioma et al. (2015) evaluated the effect of industrialization on the growth of the Nigerian economy over a period of 13 years (2000-2013). In the study, GDP was the dependent variable with several independent variables such as industrial outputs, inflation, total savings and foreign direct investments. The outcome of the study indicated that output and economic growth had a statistically insignificant relationship and the effect of outputs on the economic growth was negligible. It was also noted that savings are positively correlated to economic growth and had a noteworthy effect on the GDP. Inflation was seen to have a negative effect on the GDP and lastly foreign direct investments were seen to have a significantly positive effect on the GDP.

Shafaeddin (2005) analyzed the GDP of several developing nations that were undergoing economic reforms since 1980s with an aim of increasing exports of locally manufactured products. It was noted that 40 per cent of the nations under study had experienced a

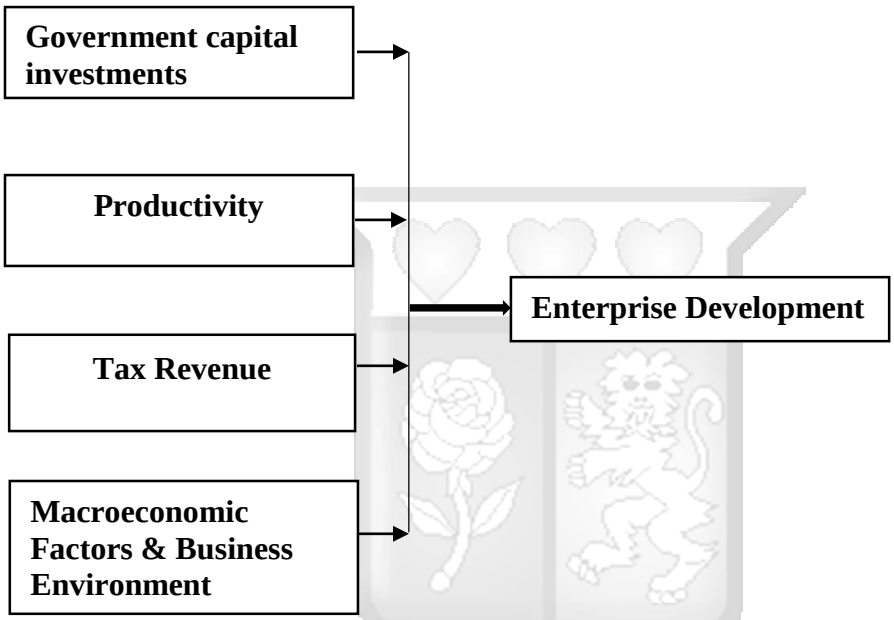
significant increase in exports of locally manufactured goods. In some of the economies, mostly East Asian, the significant increase in exports came with an increase in the industrial supply capacity. In a study conducted by Abiola (2010), it was noted that there was a direct positive relationship between savings and investments. It was also noted from the study that investments stimulate economic growth.

Kaya (2010) examined the effect of economic globalization on employment. The study involved use of data from 64 countries over a period of 23 years (1980-2003). The outcomes indicated an increase in employment levels in most countries during the period. The study found that economic growth does lead to increased employment levels in the nation. It was also noted that in most developing nations, economic growth does influence employment levels but mostly through trade.

## 2.4 Conceptual framework

The conceptual framework of the study is based on the impact of enterprise development on economic growth.

Figure 2. 1:Conceptual framework




Source: Author (2019)

A conceptual framework is the logical arrangement of interrelated concepts that together provide the complete understanding of a phenomenon (Yosef, 2009). The conceptual framework utilized in this research is based on four key independent variables which are: - Government capital investments; productivity; tax revenue; macroeconomic factors and the effect on enterprise development and economic growth. The autonomous variables are further broken down into many parameters to explain how they influence economic growth in Kenya.

The existing literature has shown that enterprise development contributes positively to economic growth. Most studies were of the view that slow growth has also been accompanied by increased susceptibility of the economy to factors that are difficult to be controlled such as imports particularly due to lack of local substitutes.

Table 2. 1: Operationalization of Variables.

| **Variable** | **Definition of variable** | **Indicators** | **Category of data** | **Measure** |
|---|---|---|---|---|
| Government capital investments | Government spending on goods and services intended to create future benefits, such as infrastructure investment in transport among others (Jelilov, 2015). | Infrastructure development, Foreign Direct Investment, Easy Access to Credit, | Ordinal | Likert scale |
| Productivity | Ratio between the output volume and the volume of inputs. It measures how efficiently production inputs, such as labour and capital, are being used in an economy to produce a given level of output (Koo, 2013). | Increased Output, Employment, Exports, | Ordinal | Likert scale |
| Tax Revenue | Revenues collected from taxes on income and profits, social security contributions, taxes levied on goods and services, payroll taxes, taxes on the ownership and transfer of property, and other taxes (Forbes, 2014). | Increased Tax, Returns. | Ordinal | Likert scale |
| Macroeconomic factors & Business environment | A characteristic, trend or condition that applies to a broad aspect of an economy rather than a certain population (Abbott, 2013). | Balance of Payments, Inflation. | Ordinal | Likert scale |

## 2.5 Research Gaps

In evaluating the literature available, it is significant to note that little research has been conducted on the critical factors affecting enterprise development in Kenya. There is inadequate confirmation to clearly justify that Government capital investments; productivity; increased tax payment; and macroeconomic factors have an effect on small and medium enterprise development in Kenya. To the best of the researcher's knowledge there has been inadequate empirical proof particularly led to establish the relationship between Government capital investments and small & medium enterprise development in Kenya. This investigation along these lines seeks to address the gap in understanding the association between the critical factors in terms of government capital investments; productivity; increased tax payment; macroeconomic factors and enterprise development focusing on SMEs in Kenya. The lessons gained from the investigation gives a better understanding and furthermore advise and contribute to the knowledge and practice of small & medium enterprise development.

# CHAPTER 3: RESEARCH METHODOLOGY

## 3.1 Introduction

This section outlines the methodology applied to understand the key objectives of the study. The section has been broken down into five sections, namely, research design, sampling techniques to be used, data collection methods, data analysis and ethical considerations.

## 3.2 Research Design

The research used descriptive as well as causal research design. Causal research was usually applied to understand the nature of cause-and-effect relationships between dependent and independent variables. Causal research also assisted in determining the extent to which variable affect each other (Lewis, 2013).

Descriptive design was considered ideal for this study because it answered the why, how, what and when of a phenomenon (Saunders, Lewis, Thornhill& Wang, 2009; Yin, 2009).

## 3.3 Population and Sampling

The target was 2017 Top 100 Mid-sized Companies in Kenya as listed by KPMG (APPENDIX II). A survey by the Kenya National Bureau of Statistics (KNBS, 2016) indicates that approximately 400,000 micro, small and medium enterprises do not celebrate their second birthday. Few reach their fifth birthday leading to concerns of sustainability of this critical sector and hence the motivation in studying SMEs in this research. The study focused on groups: business owners and managers of SMEs based in Nairobi County. 2017 Top 100 Mid-sized Companies in Kenya Top were ideal for this study because they have gone through the challenges that most SMEs in Kenya face and have a good understanding

of the critical factors under study. Based on the size of SMEs in Kenya, having annual turnovers over $50,000 and employ 10-49 people, the business owner and the top management are the key decision makers in the organization and hence the reason in selecting the two categories. Most SMEs work with a very lean top management and for this reason convenience sampling was used and questionnaires issued to at least one owner and one manager in the organization. According to Etikan, (2016), convenience sampling can be used in circumstances where the study focuses on a certain group of individuals and are easily accessible.

Total population = 2No. Employees per SME x 100

= 200 People

The author will apply Yamane (1967) formula:

$\tilde{N} = N/ (N \times d^2 + 1)$

Where; $\tilde{N}$ = sample size,

N = total population;

d =1=degree of confidence with a desired 95% degree of confidence- to come up with a sample size of 133 participants as follows:

$200 / (200 \times 0.05^2) + 1) = 133.33$

A convenient sample of respondents was drawn to fill questionnaires. The filling of the questionnaires was voluntary and therefore during data collection focus was mostly on respondents who were willing to participate in the study

As per the calculation above, the sample size of 133 respondents was adequate for this particular study.

### 3.4 Data Collection Methods.

This study was based on primary data which was collected using questionnaires filled by owners and managers of SMEs in Kenya. Questionnaires were preferable for the study because they ensured confidentiality, saved on time and were easy to administer (Bell 2013). Since the study involved a large sample, questionnaires were optimal because the researcher was able to easily collect information during a short span of time. Questionnaires also have the benefit of maintaining anonymity and therefore the respondents were able to provide honest feedback which was free from bias and therefore validity of the data was guaranteed.

Structured (closed ended) questions and unstructured (open ended) questions were used in the questionnaire to provoke specific responses for quantitative and qualitative analysis respectively. Responses on five-point Likert scale were used for closed ended questions, showing to what extent the independent variables affect economic growth.

The questionnaire was organized into themes. The first theme of the questionnaire dealt with demographic statistics such as education level and age. The other sections included questions from the four objectives.

A pilot study was conducted with 10 randomly selected organizations from the sampled SMEs to ensure reliability of the respondents and to test for weaknesses in the questionnaire Sekeran (2013). According to Kathuri and Pals, (2013), the minimum recommended sample size for any survey study is ten participants to yield meaningful results during data analysis. Along these lines therefore, ten organizations for our pilot study was sufficient. The pretest was subjected to the spilt-half analysis technique according to Cronbach's formula;

$\alpha = (N*r/1+ (N-1)*r)$

*Where* N = number of items and r is the average inter-item correlation among the items.

The study will use Cronbach alpha as the reliability coefficient of at least 0.7 which is accepted (Santos and Reynaldo 2013).

### 3.5 Data Analysis

The questionnaires was reorganized and thereafter coded to facilitate use of the data statistical analysis. Data collected had both qualitative responses and quantitative responses. Frequency distribution tables, mean scores and standard deviations were used to analyze quantitative data with the help of statistical package for social science (SPSS). Information related to the demographic characteristics of the students was summarized in terms frequencies and percentages.

Explorative factor analysis was used to identify important factors under each objective. Factor analysis is a data reduction technique which is carried out using a correlation matrix of variables of interest. A set of variables are combined to a new smaller set of variables called factors. These factors represent a weighted mean of the original data which are latent in the variables that cannot be observed. Factor analysis which uses principal component analysis and varimax rotation was used to extract factors subject to Kaiser-Meyer-Olkin (KMO), Bartlett's sphericity tests and an Eigenvalue cut off of 1.0.Kaiser-Meyer-Olkin (KMO) index, a measure of sampling adequacy, was used to determine whether factor analysis should be appropriate to yield distinct and reliable factors or determine important variables. A value closer to one indicates that there is a strong correlation between variables hence they can be used to generate factors or constructs variable. The Bartlett's test of sphericity is the test for null hypothesis that the correlation matrix has an identity matrix.

The interest was to determine the relationship between variables in order to reject the null hypothesis and conclude that the correlation matrix is not identity matrix.

Descriptive statistics was used to describe the factors generated under each objective to provide more insights about the new latent variables. To establish the relationship between Government capital investments; productivity; increased tax payment; macroeconomic factors and enterprise development in Kenya, the author used a chi square independent tests to determine whether the variables were independent or dependent. Spearman correlation analysis was used to describe the relationship between critical factors of enterprise development and development of SMEs in Kenya. The correlation coefficient value determines the measures of linear association between two variables where the coefficient is always between -1 and +1. A coefficient of -1 means that variables are perfectly associated in a negative linear sense, 0 means that there is no association between the variables and +1 indicates that the variables are perfectly associated in a positive linear sense (Cooper & Schindler, 2014).The correlation coefficient and significance of each coefficient was reported.

## 3.6 Ethical Considerations

Permission was sought from relevant authorities including Strathmore Business School ethics committee to conduct the research. Further permission to use secondary data was sought from relevant authorities and the originality of such documents properly acknowledged. Also, consent of respondents when collecting primary data was sought.

### 3.7 Reliability Test

Cronbach's Alpha coefficient method was used to estimate the reliability or internal consistency of the study. The table below show the Cronbach's Alpha (*a'*) values for the variables and the number of test items. The findings indicated all the study variables had *a'* value greater than 0.7, thus, the study was reliable (Kothari, 2004). The table below provides cronbach's alpha when an item is removed before alpha's calculation.

A summary of cronbach's alpha is provided in the table below.

Table 3. 1: Reliability test

| ***Reliability Statistics*** | ***Cronbach's Alpha*** |
|---|---|
| Government investment in enterprise development | 0.74 |
| Increased productivity | 0.814 |
| Increased tax payment (tax revenue) | 0.690 |
| Macroeconomic factors and business environment | 0.715 |
| Economic Growth | 0.768 |

# CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION OF RESEARCH FINDINGS

## 4.1 Introduction

This chapter presents results of data analysis. First, test for reliability of sampled data has been carried out. Thereafter, both descriptive and inferential statistical analysis have been performed. In particular charts and tables have been used to display data while for inferential statistics correlation tests are used to determine the relationships of variables within data sets. Further, Multivariate Factor Analysis is also used to determine the predominant factors among variables in the study.

## 4.2 Rate of response

The study had targeted 100 firms undertaking small and medium sized organizations in Nairobi city namely. A total of 133 questionnaires were issued but 101 were duly filled and submitted. The returned questionnaire constituted 75.9% of the targeted firms and that was considered adequate and good response in accordance with Mugenda and Mugenda (2003). Kothari (2004) stated that a response rate of 50% and more is adequate for descriptive study. Table 4.1 show the frequency and percent of response.

Table 4. 1: Rate of response

| **Response** | **Frequency** | **Percentage** |
|---|---|---|
| Duly filled and returned | 101 | 75.9 |
| Not returned | 32 | 24.1 |
| **Total** | **133** | **100** |

### 4.3 Test for Sampling Adequacy

Before analysis of data was performed in achieving the objectives of the study, the Kaiser-Meyer-Olkin (KMO) and the Bartlett's tests were performed to determine the adequacy of sampling for the reliability of the results that are obtained from analysis. The results presented in table below show a summary of measure of sampling adequacy all variables.

Table 4. 2: Measure of Sampling Adequacy

| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. | |
|---|---|
| Government investment in enterprise development | 0.845 |
| Increased productivity | 0.712 |
| Increased tax payment (tax revenue) | 0.667 |
| Macroeconomic factors and business environment | 0.768 |
| Economic Growth | 0.621 |

From the table above, all the values are above 0.5 which means that the sample is adequate enough for analysis. Further, Bartlett's test was carried out to test whether use of factor analysis will be appropriate. The Bartlett's test was used to determine whether correlation matrix formed by the measures of a specific constructs forms identity matrix. The results are presented below.

Table 4. 3: Barlett Test of Sphericity

| Bartlett's Test of Sphericity | Approx. Chi-Square | df | Sig. |
|---|---|---|---|
| Government investment in enterprise development | 955.867 | 28 | 0.000 |
| Increased productivity | 424.120 | 10 | 0.000 |
| Increased tax payment (tax revenue) | 252.313 | 15 | 0.000 |
| Macroeconomic factors and business environment | 614.804 | 36 | 0.000 |
| Economic Growth | 370.022 | 10 | 0.000 |

From the table above, we reject the null hypothesis implying that the correlation matrix formed is not identity matrix hence factor analysis and principal component can be used to extract constructs.

## 4.4 Demographic Characteristics

Table 4. 4: Distribution of respondents by Gender, Age and Level of Education

| *Characteristic* | *Category* | *Frequency* | *Percentage (%)* |
|---|---|---|---|
| Gender | Female | 78 | 78 |
| | Male | 23 | 22 |
| | | **101** | **100** |
| Age | 18-28 years | 10 | 11 |
| | 29-38 years | 64 | 63 |
| | Over 38 years | 27 | 26 |
| | | **101** | **100** |
| Education | KCPE | 1 | 1.0 |
| | KCSE | 4 | 4.0 |
| | College | 47 | 46.5 |
| | Degree | 49 | 48.5 |
| | | **101** | **100** |

Figure 4.4.1. Shows that the greater part of the respondents (78%) were male while just 22% of them were female. This shows that more males are involved in SME businesses compared to the females.

Findings shows that the greater percentage of the respondents were aged between 29 to 38 years which represents 63% of the total respondents. Age of respondents who engage in SME businesses was those aged between 18 to 28 years. This represents 11% of the total respondents. Overall, it was noted that the youth, those aged below 40 years comprise of 74% of SME owners out of the sampled data. The findings of this study compare with Munyua (2012) that noted that Kenya is a youthful country with 80% of the aggregate

populace ruled by youth (below 40 years). Further results demonstrates that close to half of respondents had achieved a University degree (49%), this is followed by those whose highest level of education was Diploma at 46%. This justifies the fact that the more educated an individual the more likely the individual would make a better decision to start up a business. Also, to sustain and grow a business, an individual may require better understanding of future business environment.

## 4.5 Government capital investments on enterprise development in Kenya.

Under this objective, explorative factor analysis and descriptive statistics was used to explain all government capital investment options on enterprise development**.**

Factor analysis was run using principal component analysis and the questions which had a higher factor loading was considered most relevant. Factor analysis is a data reduction technique which is carried out using a correlation matrix of variables of interest. A set of variables are combined to a new smaller set of variables called factors. These factors represent a weighted mean of the original data which are latent in the variables that cannot be observed. Statistical packages for social science (SPSS) was used to analyze the collected data of the variables. Principal component analysis (PCA) is a mathematical procedure that converts large set of measured data of correlated variables to a small set maintains most of the information from the large set.

### 4.5.1 Factor extraction

Principal component analysis was used to identify variables that account for more variability and extract new factors based on the total variance explained as shown in the table 6 below.

Table 4. 5: Government Capital Investment - Total Variance Explained

| Total Variance Explained | | | | | | |
|---|---|---|---|---|---|---|
| | Initial Eigenvalues | | | Rotation Sums of Squared Loadings | | |
| Component | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1 | 4.743 | 59.291 | 59.291 | 4.741 | 59.261 | 59.261 |
| 2 | 1.184 | 14.794 | 74.085 | 1.186 | 14.824 | 74.085 |
| 3 | 0.961 | 12.007 | 86.092 | | | |
| 4 | 0.848 | 10.605 | 96.698 | | | |
| 5 | 0.147 | 1.838 | 98.536 | | | |
| 6 | 0.057 | 0.718 | 99.254 | | | |
| 7 | 0.037 | 0.461 | 99.715 | | | |
| 8 | 0.023 | 0.285 | 100.000 | | | |
| Extraction Method: Principal Component Analysis. | | | | | | |

From the table 4.6 above, the components in the first column are the numbers of the variables used in the Factor Analysis. The initial Eigen values are the variances of the factors to be extracted. The *total* column contains the Eigen value. Since the first factor always accounts for majority of the variance, it will have the highest Eigen values. The next factor will account most of the remaining variance as it can and continues till the last factor. The percentage of variance represents the percent of total variance accounted by each factor and the cumulative percentage gives the cumulative percentage of variance account by the present. This table shows the actual factors that were extracted. From the section labelled "Rotation Sums of Squared Loadings", it shows only those factors that met extraction method. In this case, there were two factors with eigen values greater than 1. Factor 1 accounts for 59.261% of the variability in all 8 variables, and Factor 2 accounts for 14.824% of the variability. These two factors explain 74.085% of the total variability. The screen plot in appendix (iv) also confirms the number of factors to be extracted when the curves starts to level off. In this case the curve started to level off or becoming less steep after the second component hence only two factors were extracted.

### 4.5.2 Factor rotation.

After extraction of factors, the variables were subjected to orthogonal rotation. The Rotated component Matrix represents the rotated factor loadings, which are the correlations between the variables and the factors. The factor column represents the rotated factors that have been extracted out of the total factor.

Table 4. 6: Government Capital Investment - Rotated Component Matrix

| **Rotated Component Matrix[a]** | | |
|---|---|---|
| | Component | |
| | 1 | 2 |
| Market Accessibility and Product Pricing | .984 | |
| Job opportunities for Local & Foreign workers | .978 | |
| Workforce Development | .978 | |
| Infrastructure Development | .965 | |
| Workshops & Seminars | .952 | |
| Ease of access to affordable capital | | .741 |
| Incentives and subsidies at different stages in development | -.131 | .583 |
| Focus on Manufacturing sector | | -.542 |
| Extraction Method: Principal Component Analysis.<br>Rotation Method: Varimax with Kaiser Normalization. | | |
| a. Rotation converged in 3 iterations. | | |

The above matrix gives the correlation of the variables with each of the extracted factors. Usually, each of the variables is highly loaded in one factor and less loaded towards the other factors. To identify the variables, included in each factor, the variable with the value maximum in each row is selected to be part of the respective factor. Hence we conclude that factor one under enterprise development activities the government engage in comprises enable access to markets for products and services including fair prices, Allow foreign workers enter the job market, develop labour or work force to be competent to work in the industries, Infrastructure development such as roads, ports, railways, airports and heavy investment in ICT and organizing seminars and workshops at both local and international

levels and factor 2 which has Enable access to affordable capital such as micro loans, Develop incentives and subsidies and even tariffs at different stages in development and Selecting the sectors such as manufacturing that are considered important for development and pursue selective policies targeting those sectors . A summary of the two factors is provided using descriptive statistics as in the table below.

Table 4. 7: Government Capital Investment - Descriptive Matrix

| Descriptive Statistics | | | | | |
|---|---|---|---|---|---|
| | N | Minimum | Maximum | Mean | Std. Deviation |
| factor1_1 | 101 | 1.40 | 5.00 | 3.5637 | 1.00149 |
| factor1_2 | 101 | 1.00 | 5.00 | 3.2673 | 0.80694 |
| Valid N (listwise) | 101 | | | | |

The average response for factor 1 was 3.56 with a standard deviation of 1.00 which implies that most of the respondent agree to a great extent that variables in factor one the government of Kenya engage in enterprise development activities. The average response for factor 2 was 3.2 with a standard deviation of 0.810 which implies that most of the respondents agree to a moderate extent that variables in factor the government engage in them.

## 4.6 Analysis of Effect of Increased productivity on Enterprise Development in Kenya.

### 4.6.1 Factors extraction

Principal component analysis will be used to identify variables that accounts for more variability and extract new factors based on the total variance explained as shown in the table 9 below.

Table 4. 8: Productivity - Total Variance Explained

| Total Variance Explained | | | | | | |
|---|---|---|---|---|---|---|
| | Initial Eigenvalues | | | Rotation Sums of Squared Loadings | | |
| Component | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1 | 2.808 | 56.157 | 56.157 | 2.808 | 56.157 | 56.157 |
| 2 | 1.065 | 21.291 | 77.448 | 1.065 | 21.291 | 77.448 |
| 3 | 0.920 | 18.397 | 95.845 | | | |
| 4 | 0.185 | 3.691 | 99.535 | | | |
| 5 | 0.023 | 0.465 | 100.000 | | | |
| Extraction Method: Principal Component Analysis. | | | | | | |

This table shows you the actual factors that were extracted. If you look at the section labelled "Rotation Sums of Squared Loadings," it shows you only those factors that met cut-off criterion (extraction method). In this case, there were two factors with eigenvalues greater than 1. Factor 1 accounts for 56.157% of the variability in all 5 variables, and Factor 2 accounts for 21.291% of the variability. These two factors explain 77.448% of the total variability. The screen plot in appendix (iv) also confirms the number of factors to be extracted when the curves starts to level off. In this case the curve started to level off or becoming less steep after the second component hence only two factors were extracted.

### 4.6.2 Factor rotation.

After extraction of factors, the variables were subjected to orthogonal rotation. The Rotated component Matrix represents the rotated factor loadings, which are the correlations between the variables and the factors. The factor column represents the rotated factors that have been extracted out of the total factor.

Table 4. 9: Productivity - Rotated Component Matrix

| **Rotated Component Matrix[a]** | | |
|---|---|---|
| | Component | |
| | 1 | 2 |
| Workforce Productivity | 0.982 | |
| Export Trade | 0.976 | |
| Revenues for SMEs | 0.925 | 0.120 |
| Job creation | | 0.786 |
| Foreign Exchange | 0.120 | 0.670 |
| Extraction Method: Principal Component Analysis.<br>Rotation Method: Varimax with Kaiser Normalization. | | |
| a. Rotation converged in 3 iterations. | | |

The above matrix gives the correlation of the variables with each of the extracted factors. We can conclude that factor one comprises; workforce productivity leads to increased productivity of enterprises an important ingredient of economic growth, enterprise development promotes country's export-trade, which is an important ingredient of economic growth and increased revenue for SMEs enhances enterprise development. Factor 2 which has enterprise development increases productivity which in turn creates employment opportunities and enterprise development leads to increased exports which promotes foreign exchange are considered important in increasing productivity and enterprise development. A summary of the two factors is provided using descriptive statistics as in the table 11 below.

Table 4. 10: Productivity - Descriptive Statistics

| **Descriptive Statistics** | | | | | |
|---|---|---|---|---|---|
| | N | Minimum | Maximum | Mean | Std. Deviation |
| factor2_1 | 101 | 1.00 | 5.00 | 3.1254 | 1.35388 |
| factor2_2 | 100 | 1.00 | 5.00 | 3.6250 | 0.90279 |
| Valid N (listwise) | 100 | | | | |

The average response for factor 1 was 3.12 with a standard deviation of 1.35 which implies that most of the respondents agree that variables in factor are necessary in productivity and enterprise development activities only when required. The average response for factor 2 was 3.625 with a standard deviation of 0.903 which implies that most of the respondents agree that variables in factor are needed frequently in productivity and enterprise development activities.

## 4.7 The Influence of Increased Tax Payment on Enterprise Development

### 4.7.1 Chi-Square Test

Chi-square tests for associations were performed to check for the relationship between the various Enterprise development activities and the tax revenue. They are presented below:

Table 4. 11: Influence of Tax - Test of Independence

| **Chi square test of independence between Increased tax payment and enterprise development activities** | | | |
|---|---|---|---|
| Variable name | Pearson Chi-Square | df | P value |
| Filing of tax returns | 303.000a | 36 | 0.000 |
| Registration for PAYE | 85.797a | 48 | 0.001 |
| Registration for income tax | 43.631a | 48 | 0.652 |
| Registration for VAT | 396.000a | 44 | 0.000 |
| Registration for withholding tax | 55.241a | 48 | 0.220 |
| Registration for i-tax | 404.000a | 48 | 0.000 |

The result in Table shows that there is a significant relationship between enterprise development and increased filing of tax returns, increased registration for PAYE, increased registration for VAT and increased registration for i-tax. The relationship is significant since the p values is less than 0.05. Increased registration for income tax and increased

registration for withholding tax were independent of enterprise development since there p values are greater than 0.05.

### 4.7.2 Correlation and regression tests

Further testing for the correlation between the Enterprise development activities and the increased tax payment was undertaken to determine the relationship between them and the extent of the correlation using spearman rank correlation. These are presented in the table below:

Table 4. 12: Spearman Correlation between increased tax payment and independent variables

| Spearman's Correlations | | |
|---|---|---|
| | R | P value |
| Registration for VAT | .960** | 0.000 |
| Registration for i-tax | .953** | 0.000 |
| Filing of tax returns | .933** | 0.000 |
| Registration for PAYE | 0.102 | 0.314 |

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

From the table above, increased registration for VAT, increased registration for i-tax and increased filing of tax returns were considered as the most important factors having a significant correlation with enterprise development factors. The correlation was positive and thus there was a direct proportional relationship between enterprise developments and registration for VAT, increased registration for i-tax and increased filing of tax returns. There was a weak correlation and non-significant relationship between enterprise development and increased registration for PAYE.

## 4.8 Effect of Macroeconomic factors & the Business Environment on Enterprise Development

### 4.8.1 Factor extraction

Principal component analysis will be used to identify variables that accounts for more variability and extract new factors based on the total variance explained as shown in the table below.

Table 4. 13: Macroeconomic Factors - Total Variance Explained

| Total Variance Explained | | | | | | |
|---|---|---|---|---|---|---|
| | Initial Eigenvalues | | | Rotation Sums of Squared Loadings | | |
| Component | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1 | 3.548 | 39.423 | 39.423 | 3.548 | 39.423 | 39.423 |
| 2 | 1.443 | 16.035 | 55.459 | 1.443 | 16.035 | 55.459 |
| 3 | 1.098 | 12.199 | 67.658 | 1.098 | 12.199 | 67.658 |
| 4 | 0.996 | 11.071 | 78.729 | | | |
| 5 | 0.843 | 9.371 | 88.100 | | | |
| 6 | 0.627 | 6.972 | 95.072 | | | |
| 7 | 0.356 | 3.954 | 99.026 | | | |
| 8 | 0.069 | 0.766 | 99.792 | | | |
| 9 | 0.019 | 0.208 | 100.000 | | | |
| Extraction Method: Principal Component Analysis. | | | | | | |

This table shows you the actual factors that were extracted. If you look at the section labelled "Rotation Sums of Squared Loadings," it shows you only those factors that met cut-off criterion (extraction method). In this case, there were three factors with eigen values greater than 1. Factor 1 accounts for 39.423% of the variability in all 9 variables, factor 2 accounts 16.035% and Factor 3 accounts for 12.199% of the variability. These three factors explain 67.658% of the total variability. The screen plot in appendix (iv) also confirms the number of factors to be extracted when the curves starts to level off. In this case the curve

started to level off or becoming less steep after the second component hence only two factors were extracted.

### 4.8.2 Factor rotation.

After extraction of factors, the variables were subjected to orthogonal rotation. The Rotated component Matrix represents the rotated factor loadings, which are the correlations between the variables and the factors. The factor column represents the rotated factors that have been extracted out of the total factor.

Table 4. 14: Macroeconomic Factors - Rotated Component Matrix

| **Rotated Component Matrix[a]** | | | |
|---|---|---|---|
| | Component | | |
| | 1 | 2 | 3 |
| Employment levels | 0.977 | | |
| Fiscal policy and Government Regulations | 0.974 | | |
| Access to credit | 0.958 | | |
| Balance of payment | 0.834 | | |
| Interest rates | | 0.804 | 0.171 |
| Government debt | | 0.717 | -0.120 |
| Cost of entry | | | 0.732 |
| Political stability | | -0.423 | 0.597 |
| Inflation rates | | 0.285 | 0.436 |
| Extraction Method: Principal Component Analysis.<br>Rotation Method: Varimax with Kaiser Normalization. | | | |
| a. Rotation converged in 4 iterations. | | | |

The above matrix gives the correlation of the variables with each of the extracted factors. We can conclude that factor one has the following variables; employment levels, Fiscal policy and various regulations can impact the economy which in turn affects enterprise development, access to credit affects enterprise development and maintaining a stable macroeconomic environment to avoid balance of payment problems caused by outflows

of capital. These variables when combined contribute to key macroeconomic factors and business environment and enterprise development. Factor 2 which has General trend of interest rates affects enterprise development and Government debt affects enterprise development are considered the second most important factors in enterprise development. Lastly, factor 3 indicates that "Political stability affects enterprise development" and "Inflation rate affects enterprise development" has variables with least loadings contributing to macroeconomic factors and business environment. A summary of the three factors is provided using descriptive statistics as in the table below.

Table 4. 15: Macroeconomic Factors - Descriptive Statistics

| **Descriptive Statistics** | | | | | |
|---|---|---|---|---|---|
| | N | Minimum | Maximum | Mean | Std. Deviation |
| factor4_1 | 100 | 1.00 | 5.00 | 3.2200 | 1.36713 |
| factor4_2 | 100 | 1.00 | 5.00 | 3.7200 | 1.01583 |
| factor4_3 | 100 | 1.00 | 4.67 | 3.5267 | 0.80288 |
| Valid N (listwise) | 99 | | | | |

The average response for factor 1 was 3.22 with a standard deviation of 1.367 which implies that most of the respondents are neutral that variables in factor are necessary with regards to key macroeconomic factors and business environment and enterprise development. The average response for factor 2 was 3.72 with a standard deviation of 1.016 which implies that most of the respondents agree that variables in factor 2 are key macroeconomic factors and business environment and enterprise development. The average response for factor 3 was 3.53 with a standard deviation of 0.803 which means that most responds were neutral on whether these variables are key macroeconomic factors and business environment and enterprise development.

# CHAPTER 5: DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

This was the final chapter of the study. It summarized the findings of the primary study and implications of the study and provided recommendations.

## 5.2 Discussion of the Findings

### 5.2.1 Effect of Government Capital Investments on Enterprise Development in Kenya

The purpose of this study was to understand the effect of government capital investments on enterprise development. The study was further aimed at identifying the critical government related activities that had a significant impact on enterprise development. It was predicted that government capital investments will have a significant impact on enterprise development. The outcomes of the study showed that relationship between Government's activities and enterprise development was significant. The extent of relationship among the activities was however not known prior to the study. The results indicated that market accessibility, job creation, workforce development and infrastructural development had a very strong positive correlation and a significant impact on enterprise development while affordable capital, incentives and subsidies had a positive correlation and had a moderate impact on enterprise development.

The significantly positive relationship between government capital investments and enterprise development is in line with a study conducted by Babbie (2014) which indicated that lack of government support in Tanzania led to closure of most start-ups within the first year. The outcomes of this study also strongly support the endogenous theory which states that government investments are extremely important in attaining an inclusive growth. The relationship between infrastructure and enterprise development is in line with a study

conducted by Petty (2014) in Malaysia whose results indicated that the heavy investments made by the government towards Infrastructure and workforce development had a significantly large impact on enterprise development. A study conducted by Fuller (2014) indicated a direct relationship between job creation and enterprise development which is in line with the results obtained. In this study, it was also determined that affordable capital has a moderate impact on enterprise development, and this is supported by a study conducted by Obioma (2014) in Kenya which revealed that lack of capital had a negative impact on enterprise development in the country. It was found that availability Incentives and Subsidies also had a positive impact on enterprise development which is in line with a study by Khade (2013) and also Hussey and Eagan (2015) whose findings indicated that different ways used by the governments to provide incentives and subsidies promoted enterprise development.

The findings, however, are against the Neoclassical theory which stated that government interventions in an economy were not necessary in any form. Government intervention is necessary because economies are very open in the current date as opposed to the past. There are many more economic activities within and outside the economy compared to the past. Government investments in this day and age are necessary to sustain the increasing appetite of resources and very lean supplies.

The correlations clearly indicate that government capital investments towards infrastructure will have a snowballing effect in that it attracts both local and foreign investments in the country. This also improves market accessibility and thus creating more entrepreneurs and, in the process, creating more jobs. This has a significant impact on enterprise development.

The results also indicate that ease of access to capital, incentives and subsidies also moderately impact enterprise development. Access to capital, incentives and subsidies attract entrepreneurs and also assist existing SMEs to grow their organizations.

### 5.2.2 Effect of Increased productivity on Enterprise Development in Kenya.

The focus in this section was to determine how productivity affects enterprise development. The study further aimed at identifying the critical productivity related activities that were correlated and whether these activities had any impact on enterprise development.

The results indicated that productivity positively affected enterprise development. An increase in productivity levels in the economy led to an increase in enterprise development. In addition to this, the results indicated very strong positive correlations between workforce productivity, export trade and revenues. A strong positive correlation was also noted between exports and job creation.

Workforce productivity is an important ingredient for increased outputs and enterprise development, and this is supported by a global review conducted by ILO (2013) which stated that SME growth is significantly affected by upsurges in labour productivity. This is also in line with the endogenous model which states that workforce productivity is the will promote development of new forms of technology which significantly reduce the overall cost of production. Increased productivity assists in reducing the cost of production and at the same time improve the quality of the output. Cheaper and good quality products are an important ingredient for both local sales and exports thus positively impacting growth of SMEs. This also makes the industry attractive and competitive. This finding is in line with a study by Warr (2016) who identified that an increase in productivity led to growth of SMEs in the country. Workforce productivity also positively impacts job

creation in the market due the growth of existing SMEs and also upcoming enterprises. This is in line with a study by Pozzolo (2014), who identified that SMEs are known to create employment over wide geographical areas employing a wide range of labour force including workers with no prior experience and making provisions for training them.

These findings are however against the Neoclassical theory which stated that technological advancement was more important as opposed to workforce productivity. This theory may not be realistic in the current times purely because technological progression must be accompanied by increased productivity because use of technology is limited in absence of skilled workforce.

### 5.2.3 Increased tax payment (tax revenue) and its effect on Enterprise Development

The aim of this section was to analyze the influence of tax revenue on enterprise development. The results indicated that there was a positive correlation between tax revenue and enterprise development. This finding is supported by the endogenous growth theory which states that an increase in tax revenue will boost government spending and this will have a direct impact on SME growth. This, however, is only valid provided government spending will go towards infrastructure, schools, sanitation, health services and other developments beneficial to the economy. According to Kaguri (2014), increased tax revenue and misappropriation of funds have negative effects because they may directly affect employment levels.

The extent of effect of individual tax related activities on enterprise development were also studied. The results indicated that there was a very strong positive correlation between filing of tax returns, registration for VAT and registration for itax and enterprise development. I-tax registrations increase as the number of SME's in the economy increase.

This will lead to an increase in ETR registrations and revenue from VAT and annual corporate taxes. In the short term, the economy may face distortionary effects due to increase in the cost of living, however, in the long run, taxes have a positive impact on enterprise development. This is in line with a study conducted by Bassanini et al who noted that long term effects of increased tax are minimal and do not significantly affect enterprises.

There is a weak positive correlation between enterprise development and increased registration for PAYE. This result is contrary to what was expected because employment levels increase with an increase in the SMEs. This suggests that an increase in tax revenue may not necessarily increase employment levels. This finding however supported by Kaguri (2014), who stated that all taxes have a disincentive effect because they reduce the profits of enterprises and thus a reduction in employment levels. High tax revenues with minimal returns to the economy may lead to increased business costs, reduced employment creation and reduction in local and foreign investments in the long run. High levels of tax may discourage individuals from paying tax and thus promoting tax evasion.According to Mwatu (2014), SMEs play a critical role in pushing the socio-economic development agenda of the nation particularly in low income earning nations like Kenya and for this reason, customizing the tax-system match the SME growth needs will form a central agenda for policy makers.

### 5.2.4 Effect of Macroeconomic factors & Business environment on Enterprise Development

This section studied the effect of macroeconomic factors on enterprise development. The results were further analyzed to identify the critical macroeconomic factors and how they affect enterprise development. The study also identified that there is a very strong positive correlation between employment levels, fiscal policy, balance of payment and access to credit. Fiscal policy, employment levels and balance of payments were seen to positively affect enterprise development. On the other hand, the findings show that there was a strong positive correlation between interest rates and government debt. Interest rates and government debt were also seen to positively impact enterprise development. Lastly, a positive correlation was noted between cost of entry, political stability and inflation.

Poor fiscal policies discourage SME's from investing into an economy. This will affect the employment levels in an economy. This is in line with Jones (2014), who stated that a significant level of support is required from the government for SMEs to develop a sustainable business. Fiscal policies may increase or reduce tax burdens on the economy. This will directly affect inflation levels thus affecting profitability of enterprises in the economy. To meet the local demands, imports increase and negatively affect enterprises. This clearly indicates a snowball effect where changes in the fiscal policy significantly affects employment levels, balance of payments, access to credit and enterprise development. This is in line with a study conducted by Mwangi and Shem (2012) which indicated that accessing credit is a major constraint to the development and growth of small and microenterprises (SMEs)

On the other hand, the findings also indicated that there is a positive correlation between interest rates and the level of debt. The results also indicated that they affected enterprise development. In third world countries, government borrowing will have a direct positive impact on the general trend of interest rates. This is because during periods of large budget deficits or increased government spending, the government will be financed by borrowings. The large borrowing may lead to speculations of the government not being able to repay for the bonds in the future. In such a scenario, investors sell the bonds and those willing to take the risk demand for higher interest premiums to compensate for the risk. Increase in interest rates shall impact enterprise development negatively.

Lastly, the results also indicated that there is a positive relationship between political stability and inflation rates. Political stability has a direct impact on enterprise development because uncertainty in the market increases and thus in turn reduces confidence of both local and international investors. Political stability also has a direct impact spending in the economy. Negative speculation lead to reduced investment in the economy which has a direct impact on enterprise development.

## 5.3 Conclusions

Enterprise development is key tool that can be used to encourage inclusive growth in an economy. It will, however, take time, resources and a combined effort by different sectors of the economy to experience the positive effects of enterprises in the country. Strategic focusing on key aspects that affect enterprise development particularly those factors that are strongly correlated will accelerate the process. Government priorities towards infrastructure, access to affordable capital, fiscal policy alignment, interest rates and balance of payments would have a snowballing effect towards SMEs and their

development. A key role is also played by the private sector to focus on areas such as workforce development through seminars and workshops, better credit terms, job creation, use of local inputs, improved technologies and local investments will significantly assist the government in encouraging SMEs and in the process promoting growth.

## 5.4 Recommendations

Based on conclusions from the empirical findings, it can therefore be recommended that policy makers should recognize the essence of government capital investments, productivity, tax and macroeconomic factors to economic growth. Enterprise development deserves equal emphasis as is being placed on science and technology. Thus, these factors should be considered as important ingredients of economic growth just as raw materials, labour and capital (liquid and physical), since the appropriate utilization of these factors customized to the local environment will have a significant impact on the growth of the economy.

However, it is important to first provide way for proper policy coordination and policy stability. There have been several government interventions and programmes aimed at promoting enterprise development and fostering micro, small and medium enterprises and yet none significantly impacted on Kenya's economic development.

There is a great need to focus on the key factors identified in this study to support entrepreneurs in the country both during establishment or growth.

## 5.5 Areas for further Research

This research was conducted in Nairobi County. Similar study may also be conducted in peri urban areas of Kenya for comparison with results obtained in this study.

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## APPENDICES

### Appendix I: Letter of introduction

**To whom it may concern**

My name is Jaymit S. Patel, a postgraduate student at Strathmore University, Nairobi Kenya. I am carrying out a study on the "**THE EFFECT OF ENTERPRISE DEVELOPMENT ON ECONOMIC GROWTH OF KENYA".** I wish to kindly request you to participate in providing information requested below. I appreciate your voluntary participation and your responses will be treated with utmost confidentiality and will be used for academic purposes only.

Yours Sincerely,

**JAYMIT S. PATEL**

**Appendix II: Questionnaire**

*Please answer the questions by putting a tick [√] in the appropriate box or by writing in the space provided.*

**Section A: General Information**

1. Gender (a) Male [ ] (b) Female [ ]
2. Age in years

   18-28 yrs [ ]

   29-38 yrs [ ]

   Above 38 yrs [ ]
3. What is your Level of Education?

   (a) Primary [ ]

   (b) Secondary [ ]

   (c) College [ ]

   (d) University [ ]
4. Years of service at Ministry Industrialization and Enterprises Development

   (a) 0 – 5 [ ]

   (b) 6 – 10 [ ]

   (c) 11 – 20 [ ]

   (d) 20 and above [ ]

**Section B: Enterprise Development**

5. Enterprise development is the catalyst of economic growth. Tick (√) once as applicable where 1=**Strongly disagree, 2=Disagree, 3=Neutral, 4=Agree and 5=Strongly Agree**

   Strongly disagree ( ) Disagree ( ) Neutral ( ) Agree( ) Strongly Agree ( )
6. SMEs have played and would continue to play significant roles in the economic growth and developmentof Kenya Tick (√) once as applicable where 1=**Strongly disagree, 2=Disagree, 3=Neutral, 4=Agree and 5=Strongly Agree**

   Strongly disagree ( ) Disagree ( ) Neutral ( ) Agree ( ) Strongly Agree ( )

7. To what extent do the following government activities affect enterprise development? **Use 1. Very low extent; 2. Low extent; 3. Moderate extent; 4. Great extent; 5. Very great extent**

| | **Government investment in enterprise development** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|---|
| 1 | Infrastructure development such as roads, ports, railways, airports and heavy investment in ICT | | | | | |
| 2 | Develop labor or work force to be competent to work in the industries | | | | | |
| 3 | Allow foreign workers enter the job market | | | | | |
| 4 | Develop incentives and subsidies and even tariffs at different stages in development | | | | | |
| 5 | Enable access to affordable capital such as micro loans | | | | | |
| 6 | Enable access to markets for products and services including fair prices | | | | | |
| 7 | Selecting the sectors such as manufacturing that are considered important for development and pursue selective policies targeting those sectors | | | | | |
| 8 | Organizing seminars and workshops at both local and international levels | | | | | |

8. The statements below relates to productivity and enterprise development? Use **1=Not at all; 2=Sometimes 3=Only when required 4=Frequently 5= All the time**

| | **Increased productivity** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|---|
| 1 | Increased revenue for SMEs enhances enterprise development | | | | | |
| 2 | Enterprise development promotes country's export-trade, which is an important ingredient of economic growth | | | | | |
| 3 | Enterprise development leads to increased exports which promotes foreign exchange | | | | | |
| 4 | Enterprise development increases productivity which in turn creates employment opportunities: | | | | | |
| 5 | Workforce productivity leads to increased productivity of enterprises an important ingredient of economic growth | | | | | |

9. **Instructions:** Listed here below are some statements regarding increased tax payment (tax revenue) and enterprise development. Please indicate the extent to which you agree with them by ticking (√) once. **(1) Strongly disagree (2) Disagree (3) Neutral (4) Agree (5) Strongly Agree**

| | **Increased tax payment (tax revenue)** | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| 1 | Enterprise development leads to increased filing of tax returns | | | | | |
| 2 | Enterprise development leads to increased registration for PAYE | | | | | |
| 3 | Enterprise development leads to increased registration for income tax | | | | | |
| 4 | Enterprise development leads to increased registration for VAT including installing ETR machines? | | | | | |
| 5 | Enterprise development leads to increased registration for withholding tax | | | | | |
| 6 | Enterprise development leads to increased registration for i-tax | | | | | |

10. **Instructions:** Listed here below are some statements regarding macroeconomic factors & business environment and enterprise development. Please indicate the extent to which you agree with them by ticking (√) once. **(1) Strongly disagree (2) Disagree (3) Neutral (4) Agree (5) Strongly Agree**

| | **Macroeconomic factors and business environment** | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| 1 | Maintaining a stable macroeconomic environment to avoid balance of payment problems caused by outflows of capital | | | | | |
| 2 | Inflation rate affects enterprise development | | | | | |
| 3 | General trend of interest rates affects enterprise development | | | | | |
| 4 | Employment and unemployment levels affects enterprise development | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| 5 | Political stability affects enterprise development | | | | | |
| 6 | Fiscal policy and various regulations can impact the economy which in turn affects enterprise development | | | | | |
| 7 | Government debt affects enterprise development | | | | | |
| 8 | Access to credit affects enterprise development | | | | | |
| 9 | Cost of entry (startup costs including registration, license fees and the processing time) affects enterprise development | | | | | |

**Section C: Economic Growth of Kenya**

11. To what extent has Kenya experienced the following outcomes as a result of promoting enterprise development? Use 1. Very low extent; 2. Low extent; 3. Moderate extent; 4. Great extent; 5. Very great extent

| | **Economic Growth** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|---|
| 1 | Increased GDP | | | | | |
| 2 | Increased GDP Per capita | | | | | |
| 3 | Enterprise development has promoted economic growth in Kenya | | | | | |

Thank you for your time.

**Appendix III: 2017 Top 100 Mid-sized Companies in Kenya**

1. DIAMOND PROPERTY MECHANTS LTD
2. IZMIR ENTERPRISES LIMITED
3. SOLOH WORLDWIDE INTERENTERPRISES LTD
4. ADVANTA AFRICA LTD
5. HIPORA BUSINESS SOLUTIONS
6. GENERAL CARGO SERVICES LTD
7. KOMAL CONSTRUCTION COMPANY LTD
8. ALLWIN PACKAGING INTL LTD
9. TANGAZOLETU LIMITED
10. NORTHSTAR COOLING SYSTEMS LTD
11. AFRICA PRACTICE EA LTD
12. POLGON LOGISTICS LIMTED
13. MANIX LTD
14. CARE CHEMISTS
15. WELL TOLD STORY
16. COMPULYNX LIMITED
17. AAR CREDIT SERVICE LTD
18. COASTAL IMAGE TECHNOLOGIES LTD
19. SHEFFIELD STEEL SYSTEMS LIMITED
20. AVTECH SYSTEMS LTD
21. POLUCON SERVICES (K) LTD
22. MACHINES TECHNOLOGIES LTD
23. ORANGE PHARMA LTD
24. PINDORIA HOLDINGS LTD
25. COMPUTER PRIDE LIMITED
26. EDN GEORGE EA LIMITED
27. VALLEY HOSPITAL LIMITED
28. MANDHIR CONSTRUCTION LTD
29. PATMAT BOOKSHOP LTD
30. SOFTWARE TECHNLOGIES LTD
31. TRIDENT PLUMBERS LTD
32. SUPERIOR HOMES KENYA LTD
33. PATHCARE KENYA LIMITED
34. AMEX AUTO & IND. HARDWARE LTD
35. RUSHAB PETROLEUM LIMITED
36. PHAT! MUSIC & ENTERTAINMENT LTD
37. NATIONWIDE ELECTRICAL IND. LTD
38. UNIQUE OFFERS LTD
39. PRAFULCHANDRA & BROTHERS LTD
40. SPECICOM TECHNOLOGIES LTD
41. KISIMA DRILLING (EA) LTD
42. EXECUTIVE HEALTHCARE SOLUTIONS LTD

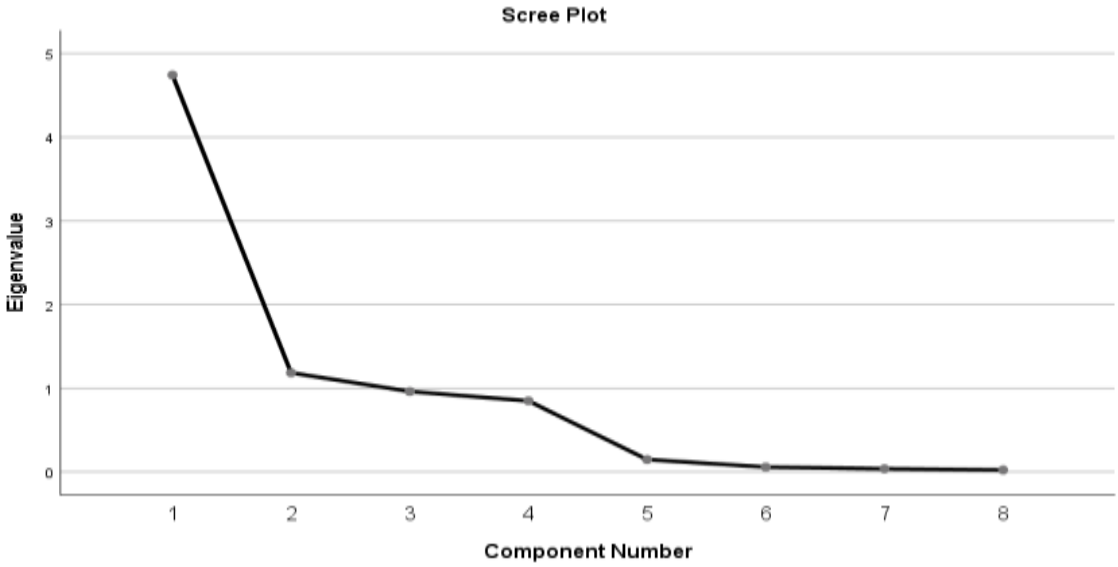
43. LOGISTICS SOLUTIONS LTD
44. ALPHA FINE FOODS LIMITED
45. CLASSIC MOULDINGS LTD
46. LOGISTICS LINK LIMITED
47. WATERMAN DRILLING AFRICA LTD
48. SPECIALLIZED ALUMINIUM RENOVATORS LTD
49. CHESTER INSURANCE BROKERS LTD
50. KANDIA FRESH PRODUCE SUPPLIERS LTD
51. SIGMA FEEDS LTD
52. KENYA BUS SERVICES MGT
53. EMMERDALE LTD
54. MIC GLOBAL RISKS INSURANCE BROKERS LTD
55. TOTAL SOLUTIONS LIMITED
56. BLUEKEY SOFTWARE SOLUTION K LTD
57. MURANGA FORWARDERS LTD
58. IMPAX BUSINESS SOLUTIONS
59. WARREN CONCRETE LTD
60. SENSATIONS LTD
61. KENBRO INDUSTRIES LTD
62. POWERPOINT SYSTEMS EA LTD
63. SMART BRANDS LIMITED
64. EUROCON TILES PRODUCTS LTD
65. UNEEK FREIGHT SERVICES LTD
66. OFFICE DYNAMICS LIMITED
67. JOGIAN INTERLINK LIMITED
68. DATAGUARD DISTRIBUTORS LIMITED
69. SUPER-BROOM SERVICES LTD
70. KENCONT LOGISTICS SERVICES LTD
71. MILLBROOK GARMENT
72. PALMHOUSE DAIRIES LTD
73. EDUCATE YOURSELF LIMITED
74. ORBIT ENGINEERING LIMITED
75. KISIMA ELECTROMECHANICALS LTD
76. RILEY FALCON SECURITY SERVICES LTD
77. BAGDA'S AUTO SPARES LTD
78. VINEP FORWARDERS LIMITED
79. ECONOMIC INDUSTRIES LIMITED
80. FAYAZ BAKERS LIMITED
81. SPENOMATIC KENYA LTD
82. MAROO POLYMERS LIMITED
83. NORDA INDUSTRIES LIMITED
84. SKYPEX SUPPLIES LIMITED
85. MASTER FABRICATORS LTD
86. IRON ART LIMITED
87. STATPRINT LIMITED
88. IDEAL MANUFACTURING CO. LTD

| | |
|---|---|
| 89. | OIL SEALS AND BEARING CENTRE LTD |
| 90. | VARSANI BRAKELININGS LTD |
| 91. | SYNERGY GASES (K) LTD |
| 92. | RIFT VALLEY MACHINERY SERVICES |
| 93. | DE RUITER EAST AFRICA LIMITED |
| 94. | NEWLINE LTD |
| 95. | R&R PLASTICS LIMITED |
| 96. | VIVEK INVESTMENTS LTD |
| 97. | NDUGU TRANSPORT COMPANY LTD |
| 98. | CIRCUIT BUSINESS SYSTEM LTD |
| 99. | THIKA CLOTH MILLS LTD |
| 100. | HOTEL WATERBUCK LTD |

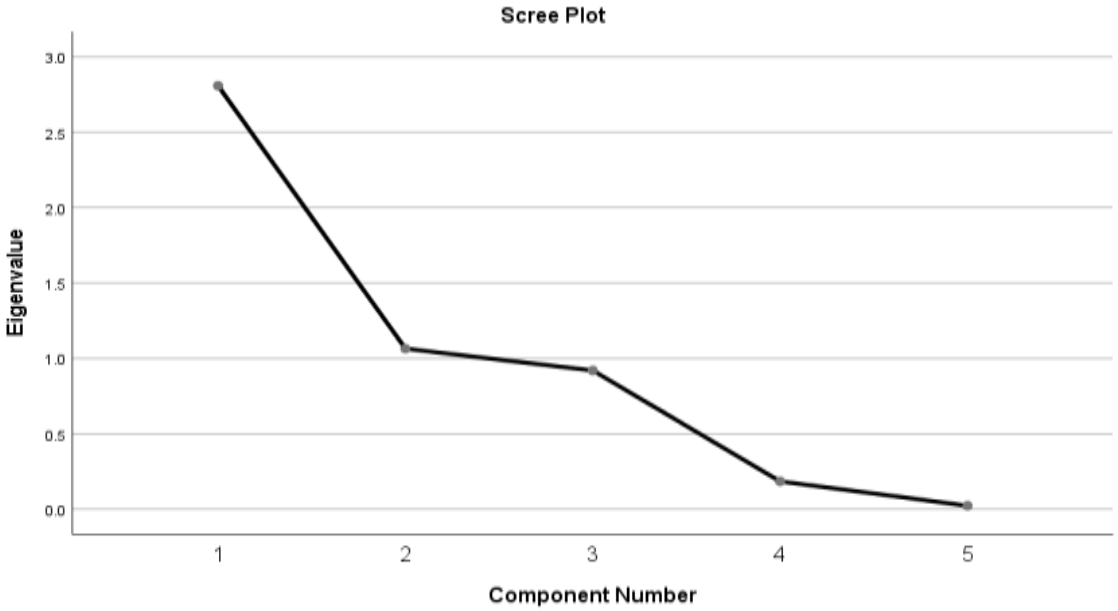
Source: KPMG, (2017).

## Appendix IV: Scree Plots for Factor Extraction

### 1) Government Capital Investment




### 2) Productivity



## 3) Macroeconomic Factors